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SUBJECT: JBIC INKS LOAN FOR SAKHALIN 2

REF: TOKYO 1552

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¶1. (U) The Japan Bank for International Cooperation (JBIC) signed a loan agreement June 16 with the Sakhalin Energy Investment Company Ltd. to provide up to \$3.7 billion in financing for the second phase of the Sakhalin 2 natural gas project according to a JBIC press release. A syndicate of private sources will provide an additional \$1.6 billion, bringing total financing for the project to \$5.3 billion.

¶2. (U) Sakhalin 2, in which Mitsui & Company Ltd, Mitsubishi Corporation, Shell Oil and Russia's state-owned Gazprom have equity shares, is expected to yield 9.6 million tons of liquid natural gas (LNG) annually. More than 50% of this amount will be delivered to Japan, accounting for 8% of the country's total LNG imports. In addition, according to the press release, Japan will receive a "substantial percentage" of the 150,000 barrels of crude oil per day pumped from the project. The loan will be used to construct a marine platform, oil and gas pipelines and an LNG plant.

¶3. (SBU) Comment. Japan imports nearly 80% of its energy needs and energy security is a long-standing and high-profile issue. The JBIC financing of Sakhalin 2 is part of the long-term energy strategy the GOJ announced in 2006 to reduce Japan's overwhelming exposure to global energy markets by pursuing ownership of overseas projects. Despite numerous delays, cost overruns and environmental challenges, Sakhalin 2 will help Japan lock-in a steady supply of LNG and, to a lesser extent, crude oil.

SCHIEFFER